Innovations for Poverty Action

Authors
Johannes Haushofer
Stockholm University

Jeremy Shapiro
Busara Center for Behavioral Economics


Household Response to Income Changes: Evidence from an Unconditional Cash Transfer Program in Kenya*

Johannes Haushofer† Jeremy Shapiro‡

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Abstract

Household Response to Income Changes: Evidence from an Unconditional Cash Transfer Program in Kenya

This paper studies the response of poor rural households in rural Kenya to large temporary income changes. Using a randomized controlled trial, households were randomly assigned to receive unconditional cash transfers of at least USD 404 from the NGO GiveDirectly. We designed the experiment to address several long-standing questions in the economics literature: what is the shape of households' Engel curves? Do household members effectively pool income? Are there constraints to savings? Do transfers generate externalities? In addition, we study in detail the effects of transfers on psychological well-being and levels of

the stress hormone cortisol. We randomized at both the village and household levels; further, within the treatment group, we randomized recipient gender (wife vs. husband), transfer timing (lump-sum transfer vs. monthly installments over 9 months), and transfer magnitude (USD 404 vs. USD 1,520). We find a strong consumption response to transfers, with an increase in monthly consumption from USD 157 to USD 194 four months after the transfer ended. Implied expenditure elasticities for food, medical and education expenditures range between 0.84 and 1.47, while the point estimates are negative for alcohol and tobacco. Intriguingly, recipient gender does not affect the household response to the program. Households may face savings constraints: monthly transfers are more likely than lump-sum transfers to improve food security, while lump-sum transfers are more likely to be spent on durables. We find no evidence for externalities on non-recipients except for a significant positive spillover on female empowerment. Transfer recipients experience large increases in psychological well-being, and several types of transfers lead to reductions in levels of the stress hormone cortisol. Together, these results suggest that unconditional cash transfers have significant impacts on consumption and psychological well-being.

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